

# **Fiscal and Recordkeeping Guidelines**

## **Juvenile Justice Crime Prevention Act**

### ***Introduction***

The following Guidelines are advisory in nature and meant to assist counties in meeting generally accepted standards. Expenditures for the JJCPA Program must be for liquidating legally incurred project obligations and consistent with the budgets approved in the Local Action Plan and its amendments.

Each County Probation Department should establish an official file for the project. The official file contains:

- 1.) A copy of the BOC approved Comprehensive Multiagency Juvenile Justice Plan (CMJJP);
- 2.) Copies of all Plan Modifications and budget amendments;
- 3.) Adequate documentation of all fiscal transactions, including accounting for receipt, deposit, and disbursement of all JJCPA funds. Documentation should be in accordance with generally accepted accounting principles.

Generally accepted government accounting principles and adequate supporting documentation should be maintained in such detail to provide an audit trail which will permit tracing transactions from the billings to the financial statements to the accounting records to the support documentation. All records relevant to the JJCPA Program should be preserved a minimum of three (3) years after project completion or audit, whichever is later, and should be subject at all reasonable times to inspection, monitoring, copying, and audit by the State or its designee for a period of three (3) years after final payment. (Government Code Section 10528).

### ***Compliance Requirements***

Enabling legislation for the Juvenile Justice Crime Prevention Act (Chapter 353, Statutes of 2000) added Government Code Section 30061 which contains the following provisions:

- (a) Requirement to establish a Supplemental Law Enforcement Services Fund (SLESF) in your county treasury to receive all JJCPA funds allocated to a county;
- (b) Requirement to deposit any interest earnings on allocated funds to the JJCPA Fund for allocation to programs contained in the approved Multiagency Juvenile Justice Plan (MJJP).

Funding restrictions (Section 30062, Government Code) include the following:

- (a) Moneys allocated to programs shall be used to supplement and not supplant funding by local agencies for existing services.
- (b) Administrative overhead costs cannot exceed 0.5 percent of a recipient entity's yearly allocation.
- (c) Capital project or construction costs cannot be funded.

## ***Encumbrances***

Fiduciary responsibility for the JJCPA funds rests with the State Controller's Office. Counties should refer to the Government Auditing Standards issued by the Comptroller General of the United States, or contact the State Controller's Office and/or their Auditor/Controller to seek clarification regarding the documentation of JJCPA expenditures.

The State Controller issued a letter May 1, 2002 which is on the JJCPA website at [www.bdcrr.ca.gov](http://www.bdcrr.ca.gov). Included in the letter is a definition of encumbrances, which reads:

*"Encumbrances, as defined in Governmental Accounting, Auditing, and Financial Reporting published by Government Finance Officers Association (GFOA), are commitments related to unperformed (executory) contracts for goods and services. An encumbrance requires a commitment by the recipient entity prior to the end of the fiscal year and that the commitment or transaction be completed within an encumbrance liquidation period.*

One year is a reasonable period of time to liquidate all SLESF encumbrances. Therefore, all June 30, 2002, encumbrances of SLESF moneys must be liquidated by June 30, 2003. Likewise, all June 30, 2003, encumbrances of SLESF moneys must be liquidated by June 30, 2004."

## ***Interest Earnings***

Interest earned on the JJCPA funds can be distributed between programs and/or line items or it can be assigned to one specific program or line item. The decision regarding the allocation of interest should be based on specific county program needs; however, allocation to one specific program and/or line item may provide a convenient way to track interest expenditures.

## ***Fiscal Frequently Asked Questions (FAQ's)***

The BOC has responded to a number of Frequently Asked Questions (FAQ's) on our website regarding use of the funds. Despite there being no audit requirement for the JJCPA Program, it is prudent to manage the program and maintain an adequate audit trail in the event that the program is audited. Many

Counties are auditing the funds and also providing technical assistance to Community Based Agencies (CBO's) in establishing appropriate audit trails.

### ***Budget/Program Modifications***

Modifications to individual program budgets, and between program budgets for multiple JJCPA program projects are permissible. Budget changes must, however, be tracked so that expenditures and outcome measures can be accurately reported to the BOC on a yearly basis (October 15 deadline yearly). Counties are encouraged to utilize county budget policies when making such modifications, maintain adequate support documentation, and are required to employ generally accepted accounting practices. The BOC Plan Modification Form must be submitted for substantive changes.

The BOC considers **substantive** changes to be "Those changes that have a significant impact on any program(s) contained in the county's BOC approved CPA 2000 plan." A substantive change could include any of the following:

- Deleting or adding new programs
- A major change in the target population of the project service by a program
- Program changes that are not supported by the existing demonstrated effectiveness evidence provided in the existing CMJJP
- Changes in program outcome measures that impact reporting requirements.

A **non-substantive** change would be defined as "Those changes that do not have a significant impact on any program(s) contained in the county's BOC approved ~~CPA 2000~~ plan. Non-substantive changes do not involve or impact project performance or reporting requirements and are not directly related to the success or failure of the project, program, or evaluation." Counties making non-substantive changes are not required to obtain BOC approval. Examples of non-substantive changes include:

- Moving funds between budget line items or programs
- Adding, deleting, or modifying personnel assigned to the program
- Changing community-Based Organizations or evaluation staff

Changes to the original plan should always be discussed with the county's BOC field representative when possible.

## ***Audit Guidelines and Checklist***

Should the County wish to audit JJCPA funds, the audit should be performed in accordance with *Generally Accepted Auditing Standards*, as promulgated by the American Institute of Certified Public Accountants (AICPA), generally accepted governmental auditing standards, as promulgated by the Comptroller General of the United States. The AICPA's Statements on Auditing Standards (SAS) No. 74, "*Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*," provides further information and guidance when auditing a governmental entity's financial statements and determining compliance with laws, regulations, and grant requirements.

### ***Selecting An Auditor***

Audits should be performed under the direction of a certified public accountant or an independent county internal auditor. If the county internal auditor performs the audit, the auditor must be organizationally independent from the county's accounting and project management functions. Counties should obtain assurances that the personnel selected to perform the audit collectively have the necessary skills. It is important that a sound procurement practice be followed when contracting for audit services. The objectives and scope of the audit should be made clear. In addition to price, other factors to be considered include: the responsiveness of the bidder to the request for proposal; the past experience of the bidder; availability of the bidder staff with professional qualifications and technical abilities; and whether the bidder organization participates in an external quality control review program. It should also be noted that these steps are important whether the county is hiring auditors from an outside CPA firm or within its own internal auditing unit.

### ***Audit Findings and Corrective Action Plan Follow-Up***

Audit findings and recommendations shall be explained in sufficient detail to enable the reader to understand both the condition (showing cause and effect) and the criteria of the weakness or condition of noncompliance. The recommendation should relate to the specific cause of the finding.

County management is responsible for corrective action and follow-up on all audit findings. A corrective action plan for each finding and recommendation must be prepared by the county. The corrective action plan must include: a) description of each finding and recommendation; b) specific steps taken to remedy the finding or implement the recommendation; c) timetable for performance of each corrective action; and d) description of monitoring to be performed, and who will perform it to ensure implementation of each corrective action.

## ***Internal Controls***

*Generally Accepted Auditing Standards* require the auditor to obtain an understanding of the county's internal control that is sufficient to plan the audit and to assess control risk for the assertions embodied in the financial statements. Furthermore, audits conducted in accordance with *Government Auditing Standards* require a report on the internal controls.

The audit objective for reviewing the county's internal control is to determine that the county has control procedures and processes in place to ensure:

- A. Transactions are properly recorded and accounted which: 1) permit the preparation of reliable financial statements and reports; and 2) maintain accountability over assets;
- B. Transactions are executed in compliance with: 1) laws, regulations, and the provisions of contracts or agreements that could have a direct and material effect on the program; and 2) any other laws and regulations that are identified in the program or Office of Management and Budget compliance supplements; and
- C. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The Office of Management and Budget Circular A-133 references the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report on the characteristics of internal control relating to five components of internal control. The auditor's understanding of the county's internal control should address the following five interrelated components (as identified by COSO):

- A. *Control Environment* sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other components on internal control, providing discipline and structure;
- B. *Risk Assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how risks should be managed;
- C. *Control Activities* are the policies and procedures that help ensure management directives are carried out;
- D. *Information and Communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities; and

- E. *Monitoring* is a process that assesses the quality of internal control performance over time.

### ***Audit Compliance***

A review is to be made of compliance with applicable laws, regulations, and grant contract requirements. The auditor should obtain an understanding of the possible financial statement effects of laws, regulations, and JJCPA requirements that are generally recognized by auditors to have a direct and material effect on the determination of amounts in a governmental entity's financial statements. The auditor should also assess whether county management has identified laws, regulations, and other requirements that have a direct and material effect on the determination of amounts in the governmental entity's financial statements. The auditor should be aware that any finding related to compliance requirements might affect the auditor's opinion report on the financial statement.

GAAS requires the auditor to design the audit to provide reasonable assurance that the financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. Audits conducted in accordance with Government Auditing Standards, as promulgated by the Comptroller General of the United States in Government Auditing Standards (1994 revision), require a written report on the auditor's tests of compliance with such applicable laws and regulations. This report should contain a statement of positive assurance on those items, which were tested for compliance, and negative assurance on those items not tested.

Positive assurance consists of a statement by the auditors that the tested items were in compliance with applicable laws and regulations. Negative assurance is a statement that nothing came to the auditor's attention as a result of specified procedures that caused the auditor to believe the untested items were not in compliance with applicable laws and regulations.

All material instances of noncompliance related to the financial statements or the program being audited shall be reported in writing. Other nonmaterial instances of noncompliance need not be disclosed in the compliance report but should be reported to the audited entity in writing. When such instances of noncompliance are reported in a management letter, this shall be referred to in the report on compliance.

## ***Record Maintenance***

The county should establish an official file for the project. The file should contain adequate documentation of all actions in accordance with generally accepted accounting principles.

Additionally, the county must establish separate accounting records for disbursement for each program.

The county may want to maintain books, records, documents, and other evidence sufficient to reflect properly the amount, receipt, and disposition of all project funds, including JJCPA funds, and the total cost of the project. Supporting documentation for goods or services should, at a minimum include the source of good or services provided, the basis upon which the value was calculated, and the date(s) the goods, or services were provided. Receipts, signed by the recipient of the goods and/or services, should be issued and a copy retained. Generally accepted government accounting principles and adequate supporting documentation should be maintained in such detail to provide an audit trail which would permit tracing transactions from the billings to the financial statements to the accounting records to the support documentation. All records relevant to the project should be preserved a minimum of three (3) years.

## ***Checklist***

The purpose of the following checklist is to assist counties in determining if they have adequate recordkeeping procedures in place to maintain an adequate audit trail in the event the county wishes to audit the program(s). The checklist is based on generally accepted auditing standards and *Government Auditing Standards*.

Because each program is slightly different, this checklist is merely a guide that covers general areas. All questions in the checklist have been designed to show a "YES" or "N/A" for favorable responses. (Reminder: All "N/A" responses should have an explanation.) If additional space is needed for explanations, use the space under "G – Comments/Explanations." All "NO" responses identify situations that require research or clarification since the audit trail or records could be improved upon. However, judgment should be used in answering each question since each recordkeeping procedures and audit trails are different. Overall, documentation shall be maintained in such detail so as to provide an audit trail that will permit tracing transactions from the invoices to the financial statements, to the accounting records, and to the supporting documentation.

References:

*AICPA Audit and Accounting Guide, Audits of State and Local Governmental Unit.*

Generally accepted auditing standards  
*Government Auditing Standards*

A. INTERNAL CONTROLS		Yes	No
1.	Does the County have an organizational chart for each department involved with the JJCPA funds?	<input type="checkbox"/>	<input type="checkbox"/>
a.	Accounting Department?	<input type="checkbox"/>	<input type="checkbox"/>
b.	Auditor/Controller Department?	<input type="checkbox"/>	<input type="checkbox"/>
c.	Probation Department?	<input type="checkbox"/>	<input type="checkbox"/>
2.	Has the County determined adequate separation of duties exist among the Accounting, Auditor/Controller, and Probation Department?	<input type="checkbox"/>	<input type="checkbox"/>
a.	Are transactions received, approved, and posted by more than one employee for any one transaction? (Separation of duties issue – no more than one employee may perform any of the above tasks.)	<input type="checkbox"/>	<input type="checkbox"/>
3.	Does the County maintain duty statements for all employees involved with the JJCPA Program?	<input type="checkbox"/>	<input type="checkbox"/>
4.	Does the County maintain written internal control procedures and flowcharts for the following procedures:	<input type="checkbox"/>	<input type="checkbox"/>
a.	Receipt and deposit of JJCPA funds?	<input type="checkbox"/>	<input type="checkbox"/>
b.	JJCPA funds disbursements?	<input type="checkbox"/>	<input type="checkbox"/>
5.	Does the County have audit reports covering the County's internal control structure within the last two years?	<input type="checkbox"/>	<input type="checkbox"/>
a.	Have the findings (if applicable) been reviewed to ensure that they are not related to JJCPA funds?	<input type="checkbox"/>	<input type="checkbox"/>
		<input type="checkbox"/>	<input type="checkbox"/>

B. Comprehensive Multiagency Juvenile Justice Plan (CMJJP)		Yes	No
1.	Does the County have the original Comprehensive Multiagency Juvenile Justice Plan (CMJJP) submitted by the County to the BOC?	<input type="checkbox"/>	<input type="checkbox"/>
2.	Does the County ensure that staff involved with the funds have read the CMJJP submitted to the BOC?	<input type="checkbox"/>	<input type="checkbox"/>
3.	Does the staff involved with the funds have a copy of the	<input type="checkbox"/>	<input type="checkbox"/>



CMJJP for reference?

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|----|--|--------------------------|--------------------------|
| 4. | Does the County and each staff have copies of the Annual Plan Modifications and updates? | <input type="checkbox"/> | <input type="checkbox"/> |
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<b>C.</b>	<b>Community Based Organizations (CBO's)</b>		
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|----|--|--------------------------|--------------------------|
| 1. | Does the County maintain or have access to original CBO contracts executed by the appropriate parties (if applicable)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. | Do CBO contracts contain language requiring them to:   | <input type="checkbox"/> | <input type="checkbox"/> |
| a. | Maintain their books and records for 3 years?  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. | Provide access to books and records for review, monitoring and audit?  | <input type="checkbox"/> | <input type="checkbox"/> |
| c. | Maintain a nondiscrimination clause?   | <input type="checkbox"/> | <input type="checkbox"/> |
|    |  | <input type="checkbox"/> | <input type="checkbox"/> |

<b>D.</b>	<b>ACCOUNTING RECORDS</b>		
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Yes	No
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|----|--|--------------------------|--------------------------|
| 1. | Does the County have an official project file that includes ALL documents and correspondence related to the funds?                                       | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. | Has the County established a separate JJCPA account to record all funds received by the County?  |                          |                          |
| 2. | Has the County established separate sub-accounts for each program to record program disbursements?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. | Does the County have guidelines and a system that tracks all the receipts and disbursements related to JJCP funds?                                       | <input type="checkbox"/> | <input type="checkbox"/> |
| a. | If so, is the system's monthly printout reviewed by the Chief Probation Officer or his designee?   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. | Are discrepancies (if any) investigated and resolved?  | <input type="checkbox"/> | <input type="checkbox"/> |
| c. | Does the County track all interest earnings made to the account and assure that they are appropriately and expeditiously deposited to the JJCPA account? | <input type="checkbox"/> | <input type="checkbox"/> |

<b>E.</b>	<b>INVOICES</b>		
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Yes	No
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|----|---|--------------------------|--------------------------|
| 1. | Does the County have a standard invoicing procedure??   | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. | Has each funded program received training in the invoicing procedure, county fiscal guidelines, and program restrictions? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. | Does the County maintain adequate supporting documentation for all disbursements such as vendor invoices?                 | <input type="checkbox"/> | <input type="checkbox"/> |
| a. | Can the supporting documentation be easily tied back to   | <input type="checkbox"/> | <input type="checkbox"/> |

the invoices? (Are vendor invoices coded/identified by line item?)

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|--|--------------------------|--------------------------|
| 4. Does the County maintain copies of approved purchase orders or approved expenditure requests?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Does the County maintain proof of receipt of goods and is there verification that the expenditure is for program services?                                    | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Do the vendor invoices include adequate detail for the work performed?  | <input type="checkbox"/> | <input type="checkbox"/> |
| a. If the vendor bills by percent complete, do the invoices specify what work has been completed?  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. If not, does the County maintain any documentation that would substantiate the vendor invoice?  | <input type="checkbox"/> | <input type="checkbox"/> |
| c. If the vendor bills by hours, do the invoices include detail for the work performed during those hours? (For example, an invoice for Mental Health Services.) | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Do the rates charged by the vendor comply with the contract terms?  | <input type="checkbox"/> | <input type="checkbox"/> |

F.	CASH DOCUMENTS	Yes	No
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|--|--------------------------|--------------------------|
| 1. Can the County provide cancelled checks or disbursement documents documenting the payments made to the vendors? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Can the County provide bank statements documenting the vendor disbursements clearing the bank?                  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Can the County provide general ledgers documenting the entries for cash disbursements?                          | <input type="checkbox"/> | <input type="checkbox"/> |

G.	COMMENTS/EXPLANATIONS
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